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Towards a developmental state?

Provincial economic policy in South Africa

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This paper explores the meaning of the developmental state for spatial economic policy in South Africa. Two main questions are addressed: do provincial governments have a role to play in promoting economic prosperity, and to what extent do current provincial policies possess the attributes of a developmental state? These are defined as the ability to plan longer-term, to focus key partners on a common agenda, and to mobilise state resources to build productive capabilities. The paper argues that the developmental state must harness the power of government at every level to ensure that each part of the country develops to its potential. However, current provincial capacity is uneven, and weakest where support is needed most. Many provinces seem to have partial strategies and lack the wherewithal for sustained implementation. Coordination across government appears to be poor. The paper concludes by suggesting ways provincial policies could be strengthened.

Keywords: developmental state; provincial economic development policy; spatial development; government coordination

1. Introduction

There is renewed interest in the idea of the developmental state in Africa. This is partly a reaction to the failure of the pro-market reforms under the Washington Consensus to deliver socioeconomic progress. Instead, many on the continent have looked towards the East Asian experience, where governments have played a leading role in strengthening growth and spreading prosperity (Chang, 2008; Turok, 2008; Gumede, 2009; Parsons, 2009). Current interest also reflects a broader shift in thinking about the economic functions of the state following the global financial crisis. For many years it was fashionable to argue that markets are better mechanisms of resource allocation than the state. Yet, the slump has forced unprecedented state activism in advanced economies to rescue failing banks and to spur recovery through major fiscal stimuli costing some $11 000 billion (BBC, 2009). It has magnified the concerns of governments in many less developed countries (LDCs) about their resilience to external economic shocks, including unstable demand for their commodities, volatile energy and food prices, falling foreign direct investment (FDI) and reduced remittances from migrant workers.

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South Africa faces particular challenges that explain its interest in the developmental state (The Presidency, 2008a, 2009; Turok, 2008; Gumede, 2009; Parsons, 2009). Only two fifths of its working age adults are in employment, compared with two thirds in many other countries (OECD, 2008; ILO, 2009). Self-employment and the small and micro-enterprise sector also appear much smaller than in most LDCs (The Presidency, 2008b). Large income inequalities are worsened by distorted settlement patterns, which trap poor communities in peripheral urban townships and remote rural areas (Harrison et al., 2008; Van Donk et al., 2008). Such problems reflect the skewed structure of the economy, with its concentrated pattern of ownership, its narrow base dominated by mining and financial services, and the historic marginalisation of the black population from opportunities of all kinds. Recent economic performance has been sluggish by international standards and skewed towards low value consumer services such as retail, telecoms, security and health (Aron et al., 2009). A worsening trade deficit caused by rising imports to supply the consumer boom has been financed by short-term capital inflows rather than long-term investment in domestic production to create jobs and diversify exports (The Presidency, 2008a,b; Du Toit & Van Tonder, 2009). Increasing external demand for the country's basic commodities has strengthened the currency and damaged industrial output and jobs.

Over the last 16 years the state has struggled with these structural challenges that require socioeconomic and institutional change (The Presidency, 2008b). Extreme social and spatial inequalities coincide with limited economic dynamism: 'our growth has been largely pedestrian. The structure of our economy has not changed significantly in a hundred years' (The Presidency, 2009:6). State institutions tend to operate in silos with inconsistent mandates that don't meld well together (Boraine et al., 2006; Harrison et al., 2008; Public Service Commission, 2007, 2009). The capacity for strategic planning is very uneven across spheres and sectors of government (The Presidency, 2008b). Public services such as education, health, water and sanitation are worst in places of historical neglect, causing a rising tide of community protest (DBSA, 2008; National Treasury, 2008). Bottlenecks in infrastructure, congestion and skills shortages constrain growth in the cities (Turok & Parnell, 2009). There is little tradition of engaging civil society and the business sector in the policy process, and progress to rectify this has been slow (McLennan & Munslow, 2009; Public Service Commission, 2009).

The post-2009 government has expressed a new commitment to long-term planning and coordination with the creation of a National Planning Commission (The Presidency, 2009). There are pressures to shift economic policy from the previous regime's cautious emphasis on inflation targeting and macroeconomic stability (Chang, 2008; Parsons, 2009). The creation of decent work and sustainable livelihoods has become the first of five cross-cutting national priorities (ANC, 2009; The Presidency, 2009). Yet considerable uncertainty remains as to how to steer the economic trajectory in a more productive, durable and yet labour-absorbing direction. Centralised systems of planning and coordination are emphasised, to the neglect of provincial (regional) and local institutions (Gumede, 2009).

The purpose of this paper is to explore the meaning of the developmental state for spatial (sub-national) economic policy in South Africa and other developing countries. Two main questions are addressed: what is the role of provincial governments, particularly in promoting economic prosperity, and to what extent do current provincial economic policies possess the attributes of a developmental state? These attributes are defined as the ability to plan longer-term, to focus key partners on a common agenda, and to mobilise state resources to build productive capabilities.

The evidence derives partly from a survey of provincial economic development departments carried out by the author in October-November 2009. The survey was sent to heads of departments, who were questioned about their policy objectives, approaches, achievements and constraints. In some cases other officials were delegated to draft the responses, although they were usually signed off by the head of department. In all cases the answers were followed up with further questions of clarification and elaboration to provide further details and to avoid ambiguities. The survey was supplemented with a review of supporting provincial documents, including their development strategies, annual reports and budget statements.

The underlying argument of the paper is that a developmental state needs to harness the power of government at every level to ensure that each part of the country builds on its strengths and develops to its potential. Yet current provincial capacity is uneven and weakest in the places that need most support. Many provinces seem to have partial strategies and lack the wherewithal for sustained implementation. There are overlapping roles and responsibilities and poor coordination across government. The paper concludes by suggesting ways in which provincial policies might be strengthened so as to reinforce the efforts of other government spheres and assist the national development agenda to be more sensitive to variable regional and local circumstances.

The structure is as follows. Section 2 defines the concept of the developmental state, Section 3 considers alternative approaches to spatial development, and Section 4 offers empirical evidence on provincial policies. The various subsections discuss the provinces' objectives, activities, resources, external partners, achievements and concerns. The final section draws conclusions and makes recommendations.

2. Defining the developmental state

There is a growing literature on the developmental state (Robertson & White, 1998; Woo-Cummings, 1999; Turok, 2008; Van Donk et al., 2008; Gumede, 2009; Edigheji, 2010). Drawing some of the principal ideas and evidence together, effective developmental states seem to have at least three important features. First, they are capable of *planning ahead* and making long-term strategic decisions beyond pragmatic responses to political pressures and problems as they emerge. They have analytical capacity to separate the causes of problems from their symptoms and consequences, and organisational capacity to focus on the underlying issues for more durable outcomes. Lack of productive work lies at the core of many aspects of poverty and exclusion, so employment tends to be a primary objective (Turok, 2010). Such states are also capable of early action to anticipate difficulties and to minimise the risks of problems occurring or escalating. They pursue the national interest over narrow sectional interests. Activities that create value and enhance the capabilities of people and firms are favoured over opportunistic, 'rent-seeking' behaviour that lobbies for special privileges, or extracts value from others without contributing to overall productivity or well-being (Sen, 1999; Gumede, 2009). A priority in countries like South Africa is to shift the economic development path in a more inclusive and dynamic direction. It is not enough to expand the output of the existing structure and reproduce its deficiencies, or to enrich a narrow section of the previously disadvantaged population through administrative or legal mechanisms. Sustained economic success comes from linking financial rewards to productive activity and long-term performance.

Second, to promote change requires boldness and *concerted effort* on the part of government. It seeks to act with sufficient scale and collective weight to influence established growth patterns. It considers the economic impact of all it does, and understands how state procurement, regulation and services can boost – or hold back – the creation of jobs. Different parts of the state are aligned so that its full powers as a major investor, purchaser, employer, regulator and provider of infrastructure and services are brought to bear consistently. For example, in the urban arena it is important to connect policies for housing, transport, land use and basic services in order to contain low density sprawl and engineer more inclusive and efficient cities (Turok & Parnell, 2009). In the industrial field, programmes concerned with training, R&D, infrastructure and trade policy require coordination to maximise their impact (Kraak, 2009). In the employment sphere, linking together schools, colleges, job advisory services and employers can smooth people's pathways into work and make the labour market function more effectively.

Otherwise, the development agenda may be undermined by contradictory state actions and speculative tendencies in the private sector looking for easy returns. Integrated actions enable the state to initiate change, and not simply to accommodate trends and respond to events as they unfold. Developmental states invest to release latent economic potential, encourage enterprise and make better use of neglected resources such as labour and land. They intervene to improve or develop the market by creating finance institutions to provide patient risk capital, encouraging long-term business decisions and improved management, and stimulating productive activity in forms or places that may not occur spontaneously. The logic goes beyond compensating for market inefficiencies, or promoting welfare in isolation from economic opportunity. It is about building the human capabilities and culture to support a resilient and dynamic economy (Sen, 1999; Evans, 2009).

Third, developmental states are democratic in the sense that different actors and interests are brought together to define *a common purpose and sense of direction* (Robertson & White, 1998; Edigheji, 2010). Democratic processes channel knowledge of what public goods are most needed by citizens and firms. Partnerships with business, labour and community organisations help to share ideas and resources, and build support and mutual commitment to activities that enhance value, encourage hard work and self-improvement, and increase employment. Cohesive institutions can instil confidence in the future and help to draw in wider investment, skills, effort and energy, thereby stretching resources further. Collaboration between different spheres and sectors of government is also important to avoid wasteful competition and duplication of effort. For example, the sequence and location of state investments in transport, energy, digital, low carbon and community infrastructure need careful alignment to ensure compatibility and to maximise local jobs. There may be significant productivity gains and spinoffs for local suppliers from this kind of joint endeavour, compared with the various state organs going it alone. Special initiatives and ad hoc projects are likely to be less effective than sustained efforts to reconfigure and integrate mainstream policies.

Of course, there is no guarantee of success and there may be risks associated with some of these features of developmental government. The focus of the combined effort may be misdirected, coordination may constrain initiative, and cooperation may delay decisions. Structures must be designed through a creative process of exploration depending on the circumstances and inherited institutions, and there are always difficult balances to be struck. One of the tensions is between centralised and decentralised systems of planning and implementation. There may be economies of scale and greater leverage with the former, but more flexibility, integration and responsiveness to economic realities and opportunities with the latter.

3. Spatial development policies

There is increasing recognition that localities and regions matter in important ways to national prosperity. According to Storper, for example, ‘the region is a key source of development’ (1995:191). Porter has long argued that ‘The enduring competitive advantages in a global economy are often heavily localised, arising from concentrations of highly specialised skills and knowledge, institutions, rivalry, related businesses, and sophisticated customers’ (1998:90). Localities and regions are not inert containers for economic activity, and spatial policy is not a zero-sum game concerned simply with the distribution of resources. Places are the locus of land and labour markets, supply chains, and markets for many products and services. These economic interactions create important positive and negative spillovers or externalities. They can influence economic outcomes in helpful or harmful ways, affecting the extent to which value is created and enhanced, and have a direct bearing on aggregate productivity, innovation and long-run growth. Places also have distinct economic needs and potentials, depending on a wide range of factors.

At the risk of oversimplification, we can identify two broad approaches to spatial policy. The first is conceived of as narrowing the gap between leading and lagging regions by diverting investment from the former to the latter (Pike et al., 2006). This may be between regions within a particular nation, or between nations. The emphasis is on improving the business environment of the poorest regions through basic infrastructure and financial subsidies (‘hard’ assets). If the target is FDI, additional efforts may be made to lower business taxes and relax national labour regulations and environmental standards, especially if the approach is market-oriented and hands-off. Manufacturing is the usual target of attention, on the grounds that it is the main propulsive sector – more mobile than primary industries and services, with larger multipliers and externally traded products. Depending on the incentive packages, labour- or capital-intensive assembly operations are more likely to relocate than strategic, higher order functions. Business relocation from high cost environments and congested regions can benefit the national economy by reducing inflationary pressures. National government is typically in control for predictability and standardisation, and to limit competitive bidding between regions. Before 1994, South Africa had a long history of trying to attract assembly plants to the former Bantustans, most of which closed when the incentives expired because they were fundamentally unviable (DTI, 2006; Harrison et al., 2008).

More sophisticated, hands-on policies of this genre seek to create integrated industrial complexes with stronger backward and forward linkages to embed plants within the region and capture additional business activity and jobs. The logic partly involves minimising transport costs by concentrating particular value chains in one location, such as export processing zones or growth poles (Gordon & McCann, 2000). Supplier development programmes nurture indigenous firms so as to build the skills and capabilities to produce intermediate inputs for the foreign plants, or to attract second-tier suppliers. ‘After-care’ programmes seek to persuade inward investors of the overall cost savings from using local suppliers and to encourage plant upgrading to higher value functions, superior technologies and better environmental practices over time. FDI is seen less as an end in itself and more as a means of harnessing knowledge, techniques and best practices to develop the capacities of domestic firms and workers to sell their products in broader markets (Gallagher & Zarsky, 2007).

This comes closer to the second approach to spatial policy, which has sometimes been described as ‘new regionalism’ or ‘new localism’ (Keating, 1998; Rogerson, 2009). The emphasis is on internally driven development, based on strong indigenous enterprises, reliable institutions and local endowments. This is more in tune with developmental state thinking in terms of building long-term productive capabilities and not expecting a quick fix. Growth from within is perceived to be more sustainable than attracting outside investment, since it develops greater resilience and adaptability to economic change. The policy is also aimed at realising the potential of all regions and not simply those most in need, in order to maintain and enhance the position of places in a more competitive global environment. In contemporary conditions, factor costs may be less important for determining regional competitiveness than for their ‘quality’, which stems from human capabilities, business networks, supporting institutions and mutual learning – i.e. resourcefulness rather than resources (Buck et al., 2005; Turok, 2004). The growth of local economic development (LED) in South Africa over the last decade is broadly consistent with this shift in thinking (Van der Heijden, 2008). The aim is to build local support organisations with the knowledge, skills and scope to experiment with development projects and identify what works best in different places.

The basic approach varies internationally. The concept of industrial clusters has been particularly influential (Cooke & Morgan, 1998; Porter, 1998; Gordon & McCann, 2000). The core idea is that proximity between firms helps personal relationships to develop and builds trust. Local business networks promote a sense of shared interest and encourage longer-term thinking and greater risk taking. Firms act together for mutual benefit through business associations that provide common support services and encourage innovation. The result is local sector clusters that enjoy distinctive and differential advantages over other places. The public sector can assist by providing supporting finance and infrastructure to strengthen these networks. Local universities and investors can also help to translate scientific research into commercial products and processes. South Africa’s draft Regional Industrial Development Strategy (DTI, 2006) reflects these ideas in aiming to establish unique programmes in each region to develop local sector strengths through bottom-up partnerships with the private sector.

A variation of this emphasises the economic advantages of scale and scope that flow from concentrated activity in cities. Cities increase the opportunities available to firms and workers, and reduce the risks to which they are exposed (Buck et al., 2005; World Bank, 2009). Firms can find specialist skills more easily in a bigger labour pool, and have access to a greater range and better quality of shared business inputs and transport facilities. They gain from a thicker flow of information through informal contacts or movement of key workers, which helps to spread ideas about how to improve goods and services. The scale of activity determines the significance of these benefits – the larger the better. Density and variety add to the dynamism and creativity. South Africa’s National Spatial Development Perspective (NSDP) is consistent with this approach in encouraging economic infrastructure investment to focus on the country’s cities and major towns (Harrison et al., 2008; Turok & Parnell, 2009).

Cities are also part of broader economic systems and resource flows, located within regional, national and global contexts (Scott, 2001). They function as metropolitan service centres, transport gateways and logistics hubs within a larger hinterland, naturally spreading the benefits of prosperity as they grow. Connectivity facilitates the supply of energy, food, water and other natural resources from their surrounding regions, and enables cities to contribute through remittances from employment, higher order services and technology diffusion. Prosperous cities are also linked into wider international networks to access knowledge, resources and markets. Coordination across government is important for consistency in infrastructure, skills, trade and industrial policy. Empowered local and regional state institutions can also promote more effective and integrated responses to the diverse problems and opportunities in different places – in other words, place-based solutions (Tomaney et al., 2010).

These approaches tend to be most developed in the global North. The challenges are clearly greater in the global South, given the higher incidence of poverty, wider territorial disparities, less developed infrastructure and skills, and more limited state organisational and financial capacity, especially at the local level. One of the underlying concerns associated with the second approach is that local and regional gaps may widen over time, especially in the South African context, given the apartheid legacy of spatial inequality. In places with strong productive capabilities and robust institutions, these gaps may widen further in the absence of countervailing central government mechanisms to redirect resources and spread prosperity, such as major fiscal transfers, improved connectivity and capacity building.

4. Provincial economic development in South Africa

4.1 Introduction

We can identify aspects of both approaches in South African spatial policy since 1994. The approval of a coherent spatial framework for the country has been complicated by political and departmental differences (Harrison et al., 2008; Turok & Parnell, 2009). For example, the DTI's Industrial Development Zones (IDZs) tend towards the first approach in subsidising inward investment in lagging regions, whereas the aim of the NSDP is to focus productive investment in the cities and major towns.

Economic development is also complicated by ambiguity about the specific roles and responsibilities of the three spheres of government. The nine provinces have some constitutional autonomy, reflecting the early 1990s political settlement, but are also obliged to work within national legislation and policies. They are required to prepare growth and development strategies framed by national priorities and adapted to distinct local needs and opportunities. A series of national initiatives has had a strong influence on provincial programmes in recent years, including the 2006 Accelerated and Shared Growth Initiative (ASGISA) and the 2007 National Industrial Policy Framework (NIPF). The provinces are also required to work with local municipalities, assist their capacity-building efforts and encourage consistent LED initiatives. Municipalities are required to prepare Integrated Development Plans (IDPs) containing a LED strategy.

The overlap between the three spheres creates the potential for policy incoherence, gaps and omissions, duplication of effort, confused accountability and uncertainty on the part of business and other stakeholders. The extent of the problem is discussed below. Suffice to say at this point that there is a general challenge to clarify responsibilities so as to minimise confusion and duplication, without stifling initiative and creativity.

4.2 Uneven economic conditions

Provincial policies are framed within a context of generally high but uneven levels of worklessness. Unemployment in South Africa is very high by international standards (ILO, 2009) at 24.4% in the final quarter of 2009, up from 21.9% a year before (Table 1). The ‘employment rate’ is a better indicator of economic activity and labour market conditions because it takes account of people discouraged from looking for work by the lack of jobs. Only 41.5% of the working age population was in formal or informal employment in the final quarter of 2009, down from 44.8% a year before. Nearly a million jobs were lost over that period of the recession.

[TABLE 1 ABOUT HERE]

Socioeconomic conditions vary widely across the country, reflected in diverse labour market circumstances (Table 1). The employment rate is exceptionally low in Limpopo (LP) and the Eastern Cape (EC), where the proportion of adults who have a job of any kind is under one in three. This suggests high levels of economic inactivity and poverty. Unemployment is relatively high in the North West (NW), Eastern Cape (EC), Limpopo (LP) and Mpumalanga (MP). Looking across the top two rows of Table 1, the inconsistency between the two indicators shows the importance of having more than one measure of labour market conditions.

In Kwazulu Natal (KZN) the picture is mixed with a low unemployment rate and a low employment rate. This indicates that many people are detached from the jobs market and not looking for work, presumably in the rural hinterland. The reverse applies in Gauteng (GP), with a high unemployment rate and a high employment rate. High economic participation reflects inward migration of people seeking work and is generally a positive feature for the provincial economy, although dissatisfaction levels may be high if people can’t find work. Only the Western Cape (WC) is better placed than the national average on both indicators, reflecting a relatively strong and diverse economy, and higher skills. Even so, the level of worklessness is still very high by international standards.

The impact of the downturn has been quite different across the provinces (Table 1), although the data is subject to variability as it is based on a sample survey. The largest net job losses were in Gauteng, which accounted for nearly two fifths (38%) of the national total. Gauteng lost nearly one in 12 of the jobs it had the year before – a major blow for the country’s industrial heartland. The North West came off worse in relative terms, having lost one in eight of its jobs. These are major shocks with profound consequences for households and communities. Other provinces that were less affected by the onset of recession may experience delayed knock-on effects from reduced remittances and return migration from Gauteng, KZN and mining areas in the North West.

4.3 Provincial aims and objectives

The economic objectives of the provinces seem quite varied. Table 2 captures words and phrases used in their strategy documents and survey responses, with conventional economic aims listed in the left column and broader goals in the right. ‘Growth’, ‘sustainable growth’ and ‘employment’ are ubiquitous, although they offer few supporting objectives to elaborate. Poverty reduction also features quite strongly and in various guises – livelihoods, informal economy and food security. Other responses vary more widely between the provinces. A positive interpretation is that they are making their own strategic choices in response to different local conditions, rather than following a national formula. For example, ‘diversification’ is important in places with a narrow economic base, such as the Northern and Eastern Cape and Free State, whereas Gauteng aspires more towards innovation and the knowledge economy. Yet the responses are generally rather thin, with each province specifying few objectives, and there is insufficient detail or specificity to be confident that each province really has a distinctive agenda.

[TABLE 2 ABOUT HERE]

In addition, very few provinces mention objectives one might have anticipated, relating to productivity, enterprise, value creation or average incomes. Considering the apartheid legacy, two other surprising omissions are human skills and capabilities and the distorted spatial economy, including the urban-rural imbalance and the challenges of the former Bantustans and dormitory townships. Overall, there is little sense of the strategic growth path envisaged and the likely drivers of development. There are also few clues as to the roles to be played by the state at different levels or the private sector.

4.4 Practical activities

The economic activities and projects undertaken seem to follow a broadly similar pattern, with some important differences (Table 3). All provinces are engaged in attracting inward investment and encouraging local firms to export to wider markets. These efforts seem quite generalised in terms of target industries. Yet they all also favour a sectoral approach to some of their support schemes. Many of the sectors they target reflect national priorities, such as tourism, call centres, agro-processing, automotive production and minerals beneficiation. Almost all provinces provide advice, training and financial assistance to SMMEs (small, medium and micro enterprises) and cooperatives. It is not made clear whether the types of support differ from those provided by other branches of government.

[TABLE 3 ABOUT HERE]

Besides those mentioned above, there do not seem to be many other common activities. Considerable effort seems to be devoted to investment attraction and business development, but far less to the business environment – physical infrastructure, human resources and enabling institutions. It is possible these are regarded as the prerogative of other parts of government. Nevertheless, one would have expected an integrated growth strategy to make reference to these vital ingredients of economic development, especially given the way they have been neglected in recent decades (DBSA, 2008). Firms cannot grow without an effective supply of land, infrastructure and skilled workers, and coordination of these inputs is important to maximise their synergies and embed them effectively into the local economy. Investment in training is important in a recession to help redundant workers find alternative employment, and to address the legacy of a highly unequal education and training system (Kraak, 2009).

4.5 Financial and staff resources

Table 4 considers provincial resources for economic development. The figures exclude ancillary functions located in these departments, including business regulation (consumer protection, gambling and liquor licensing) and environmental affairs. The first row shows the average budget for 2009–10 for activities undertaken directly, the secondshows the budget transferred to external development agencies set up and controlled by the provinces (see Section 4.6), and the third shows the total. The average budget for each province is R512 m ($64 m). This amounts to R4608 m ($576 m) for all nine provinces. It is the same order of magnitude as the budget of the national DTI – R5.4 bn ($675 m). Provincial economic development is clearly not a trivial activity. It is also a sizeable employer. On average, the departments employ 537 staff directly and indirectly.

[TABLE 4 ABOUT HERE]

The figures are converted into several ratios in the right hand column. First, the budget for each province is divided by the population to show the budget per head – it amounts to R79 ($10) on average. The budget is then shown in relation to the total staffing – it is about R1m ($0.12m) on average. This is not many times the average staff salary, suggesting a focus on recurrent spending and the provision of services rather than capital investment. The third ratio is the economic development budget as a proportion of the total provincial budget – it is just over one per cent on average. This is very small compared with the main provincial functions of education, housing and social welfare.

There are big differences between the provinces. KZN has the biggest budget by far at over R2.3 bn ($0.29 bn). This is 22 times higher than the Northern Cape's. KZN also employs over 1400 staff directly and indirectly, compared with 146 in the Free State. KZN has the biggest budget per head of population at R227 ($28), which is seven times larger than the smallest, R32 ($4) per head in the Western Cape. KZN's economic development budget is 4% of KZN's total budget, whereas it is only 0.6% in the Western Cape.

There is no relationship between budget levels and provincial economic conditions. Provinces facing the greatest needs generally do not spend any more or less than the others per head of population. Similarly, those with the greatest economic potential, such as Gauteng, do not invest consistently more or less than the others, although the Western Cape is an outlier in spending less than the rest. The lack of any clear pattern suggests that spending levels are determined by provincial decisions with little or no influence from national considerations. One minor qualification to this is that provinces containing former Bantustans tend to have inherited commitments to development agencies and programmes dating back to the 1980s or before, which helps to explain the higher budgets of provinces such as KZN.

4.6 External development agencies

The provinces have each set up just over four external agencies on average (Table 4). They spend three times as much on them as they do on their own activities. External bodies are favoured because they permit greater focus and operational freedom from the complicated procedures of government. They can be more enterprising and cultivate closer relationships with business organisations. Yet this practice has raised concerns about diminished accountability and excessive effort expended on setting up structures rather than delivering services (Xuza & Swilling, 2008). Most provinces have one agency that supports SMMEs, one that attracts inward investment and one that promotes external trade. The Western Cape is unusual in supporting 17 ‘special purpose vehicles’ aligned with particular sectors, such as oil and gas, tourism, ICT, call centres, boat building, music and creative industries. This follows the cluster logic in seeking to build self-supporting, collaborative business networks, and covers emerging as well as established industries. Although the head of department acknowledges that there are probably too many of these vehicles for the budget available, this kind of grounded approach based on substantial research and analysis could assist the process of national economic diversification by developing distinctive industrial strengths in each region.

Gauteng has nine agencies concerned with strategic economic infrastructure, support for SMMEs, investment and trade promotion, international motor sports, the automotive industry, innovation in IT, film production, new technology based businesses and tourism. Towards the end of 2009 the Gauteng Motorsports Company was closed because of poor value for money, and early in 2010 a multi-million dollar contract between another Gauteng agency and the US-based media network CNBC was cancelled for the same reason (Benjamin, 2010). KZN has the largest agencies of all the provinces. Ithala Corporation provides development finance to SMMEs and other projects, and employs 977 staff through local offices spread throughout the province, especially in marginalised communities. Ithala was originally set up under the auspices of the former Bantustan in the region. At the end of 2009 its rules were tightened to prevent loans being made to its own staff and provincial politicians, following revelations in the national media that substantial amounts of money were not being repaid. Another KZN agency, Dube Trade Port, has ambitious aims to develop trade, logistics and agro-processing industries related to Durban’s new international airport, and has an annual budget of R1.7 bn ($0.2 bn).

4.7 Main partners

Each department was asked to identify the main organisations they had built relationships with in order to gain insights into the kinds of partnerships they perceived to be most important. The responses are shown in Table 5. The dominant focus is on hierarchical relationships with other parts of government (the top seven rows). There is far less emphasis on the business sector and three provinces make no mention of any such links. This is surprising for organisations whose purpose is to attract and develop businesses, which requires understanding their constraints and working together to develop suitable interventions. Connections with universities and other research organisations are mentioned by six provinces. This is a healthy sign of improving the evidence base for policy. Labour and community-based organisations hardly feature at all.

[TABLE 5 ABOUT HERE]

Gauteng and the North West claim that they have very extensive networks that span government, business and civil society sectors. KZN is slightly more selective, but also wide ranging. The networks for the others seem to be quite limited in scope. The networks of three provinces appear to be focused exclusively on other parts of the public sector. One acknowledged this limitation, saying that ‘Institutional arrangements need to strengthen partnerships with business, labour and civil society in support of the provincial growth and development plan’.

4.8 Achievements

The provinces were asked about their main achievements over the last five years. Table 6 lists all the items that featured in their responses. The items are arranged in rough order, starting with preparatory work or 'inputs' at the top of the left hand column, operational delivery or practical 'activities' below them and into the right hand column, and then tangible outputs and outcomes towards the bottom of the right hand column. This provides some useful insights into provincial views of the extent and nature of their impacts, but should not be regarded as definitive because of its subjectivity.

[TABLE 6 ABOUT HERE]

The emphasis in many cases was on setting up particular projects and programmes, rather than on what economic outputs or outcomes they had delivered in terms of jobs, investment or business growth. This may reflect a lack of evidence of tangible impacts, or the fact it was too soon to have had such effects. The most frequent single claim was to have set up some form of sectoral infrastructure, such as a scheme providing technical assistance to firms. This illustrates the popularity both of sectoral thinking and creating structures. The second most common set of responses was assistance for SMMEs and cooperatives – finance, advice and training – but again with little hard information on impacts. The third was practical support for municipal LED activities, such as capacity building.

There was little mention of support for physical infrastructure and property, informal enterprises, skills training and active labour market policies to help people obtain work experience or employment. This is consistent with the objectives and activities discussed earlier. Some provinces mentioned the creation of development funds and ongoing programmes, which should have a sustained impact, while others seemed more focused on discrete projects. The limitations of proceeding by means of piecemeal projects include the difficulty of scaling up to achieve a significant impact and the absence of a strategic perspective, since 'it is much easier to design projects than to consider, assess and address structural and institutional barriers to development' (Van der Heijden, 2008:4).

4.9 Concerns

Departments were asked to identify the main obstacles they faced in promoting economic development. The question was open-ended, with no distinction between immediate concerns and underlying problems. Table 7 lists all the items that featured in their responses. A lack of skills and organisational capacity was the most common constraint. Six provinces mentioned a lack of *municipal* capacity to plan and implement economic programmes and projects. One explained that they relied on local government to deliver, but were frustrated by the limited skills and resources available locally.

[TABLE 7 ABOUT HERE]

Four provinces said they were short of professional staff themselves. This was partly because of high turnover as skilled people moved to higher paid jobs elsewhere. This reduced management continuity and institutional memory, and undermined their ability to develop sound policies and projects. No less than 50% of staff posts were vacant in one department and 40% in another, contributing to substantial underspending of their budget. Three rural provinces complained of a wider deficiency of professional skills within their regions, obstructing the ability of external public agencies and private consultancies to take schemes forward.

Funding was another general constraint: five provinces said the lack of funding from national government inhibited delivery of their large mandate. Institutional relationships were a third obstacle: three provinces complained of poor communication between spheres of government. Two mentioned a lack of common vision and poor commitment among key stakeholders. One said there was poor support from national departments and another that government policies were contradictory. Two provinces said that elaborate legal procedures for environmental impact assessments caused excessive delays to development projects.

4.10 Coordination problems

All nine provinces agreed that there was a need for greater coordination across government in economic development. The most common concern was a lack of knowledge sharing between the provinces (five mentions), resulting in wasteful duplication of effort, a failure to learn from each other's experience, and a tendency to 'reinvent the wheel' (Table 8). According to one respondent, 'A wealth of knowledge exists within government and yet we continue to operate in silos'.

[TABLE 8 ABOUT HERE]

Four provinces noted poor coordination between departments within their own province. One called for a political champion for their growth and development plan: 'The PGDP should be at the centre of decision making and resource allocation in all state institutions in the province.' Four provinces mentioned poor links with municipalities, including a lack of involvement in drafting development plans. Provinces are supposed to support local capacity building. Coordination across administrative boundaries was also important to reflect functional economic realities: 'Given that sectoral value chains cut across municipal boundaries, economic planning should be the responsibility of provincial government.'

Four said there were overlapping responsibilities between spheres of government and three called for improved communication between national and provincial government. Several provinces said that national policies for infrastructure investment were too fragmented and others mentioned specific areas for policy alignment where there was currently duplication, including support for SMMEs. Joined-up action was difficult to achieve at the provincial level if national policies were disconnected.

5. Conclusions and implications

Like many African countries, South Africa faces major structural problems of unemployment, poverty and inequality. The economy is skewed towards meeting the needs of the few rather than the many and generally lacks dynamism. The post-2009 government is searching for an alternative policy that promotes inclusive development through more and better jobs. Its vision of a developmental state involves a more strategic approach based on long-term planning and coordination. Through concerted action it aims to set the economy on a more diversified and labour-absorbing growth path.

There is a centralising tendency in this vision that could limit the contribution of provincial and local institutions. According to development state theories and spatial development theories there is a clear role for decentralised authorities to respond to the challenges and possibilities of local territories with tailor-made solutions based on detailed local knowledge and relationships. A developmental state needs to harness the collective power of government at every level in order to change the pattern of growth and help all areas to realise their potential. A stronger national economy depends on better functioning local economies and labour markets, based on a broader foundation of resourceful people and competent SMMEs. A centralised approach cannot respond with sufficient flexibility to the dynamic conditions in each locality and region, and exploit their specific ideas and opportunities for development. Empowered provincial organisations could complement the undoubted economic capabilities of the national state by providing additional energy, initiative and expertise to build place-specific productive assets and distinctive sectoral strengths, not all replicating one standard approach. This would be assisted by the formulation of a national spatial framework and coordinated infrastructure plan that recognised the broad differences between places, including the opportunities afforded by denser settlement patterns, and the costs associated with distance and division (Turok & Parnell, 2009).

Provincial authorities have gained useful experience in recent years, although their policies and practices are uneven and have shortcomings at present. Some strategies seem to be based on limited analysis of what drives and constrains economic development. There is an emphasis on generalised investment attraction and business support, and inadequate coverage of skills issues, physical infrastructure and the spatial economy. The scale of funding in most regions is modest considering the challenges faced and the national priority of job creation. Resource allocation also shows no obvious relationship to the distribution of social need or economic potential across the country, and the tangible impacts and outcomes are sometimes unclear. Organisational capacity is severely constrained in many places, and shortages of professional staff are widespread. There are concerns about the accountability of external agencies and duplication of effort. The commitment to involve business and other stakeholders seems very uneven. Some national departments appear unsupportive of provincial agendas, and many provinces in turn seem insufficiently engaged with local municipalities.

All this suggests scope for improvement. There is a case for giving economic development a higher priority across provincial government, with their technical and organisational capabilities strengthened accordingly. The responsibilities of different government spheres should be clarified, including guidelines for problem analysis, strategy formulation, priority setting, resource allocation, external consultation, capacity building, monitoring and evaluation of impacts, and reflection on experience. Stronger backing from government and its agencies, and more dialogue within and between spheres would help to align policies and actions. Uneven capacity across the provinces means they could learn much from each other by sharing knowledge, skills and experience through twinning arrangements and peer review mechanisms. A stronger evidence base would improve understanding of local economic constraints and distinctive opportunities, and help to spread the learning from good practice.

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Table 1: Labour market conditions in the provinces

	EC	FS	GP	KZN	LP	MP	NW	NC	WC	RSA
Unemployment rate Oct–Dec 2009 (%)	27.0	25.3	25.7	19.2	26.9	26.6	27.0	24.9	21.5	24.3
Employment rate Oct–Dec 2009 (%)	31.4	42.2	52.2	37.6	29.0	39.6	35.9	40.9	53.9	41.5
Loss of employment over last year (000s)	95	39	330	222	-40	53	109	26	37	870
Loss of employment over last year (%)	7.0	4.7	8.1	8.4	-4.6	5.7	12.2	8.2	1.9	6.3

Source: Statistics South Africa, Quarterly Labour Force Survey, October-December 2009 (StatsSA, 2010)
Notes: The employment rate (or 'absorption ratio') is the proportion of the working age population that is employed. Minus figures for LP indicate employment growth.

Table 2: Provincial economic aims and objectives

	Provinces mentioning this objective		Provinces mentioning this objective
Growth	9	Shared/inclusive growth	4
Employment	9	Poverty reduction	4
Sustainable growth	8	Informal/second economy	3
Diversification	6	Transformation	3
Global competitiveness	5	Good governance	3
Knowledge economy	2	Food security	2
Higher value added	2	Environmental sustainability	2
Local linkages	2	Decent work	1
Regional competitiveness	1	Broader econ. participation	1
Productivity	1	Livelihoods	1
Innovation	1	Spatial balance	1
Enterprise	1	Wealth redistribution	1

Sources: Provincial survey responses and strategy documents

Table 3: Provincial economic development activities

	Number of provinces mentioning this activity		Number of provinces mentioning this activity
Business development		**Human development**	
Inward investment	9	Basic skills	0
Trade/export promotion	9	Vocational training	4
Sectoral support	9	Public works	1
Tourism	9	Labour market matching	0
Business associations	1	Empowerment	5
Science/R&D/innovation	1	Talent attraction	0
SME advisory support	9	**Physical infrastructure**	
SME financial support	8	Transport and logistics	5
Cooperatives	8	Supply of serviced land	2
Informal enterprises	3	Business premises	1
Institutions		Public realm	1
Munic. capacity building	5	Place image and branding	3
Public-private partnerships	4	Regeneration of old industrial areas	1
Leadership	2	Industrial develop. zone	4
Economic research	4		
Arts & cultural activities	3		

Sources: Provincial survey responses and strategy documents

Table 4: Provincial economic development resources

	Average per province		Average per province
Financial (Rm)		**Ratios**	
Internal ED budget	128	Budgets per capita (R)	79
Budget transferred to agencies	384	Budgets/staff (R)	0.96 m
Total ED budgets	512	Total budget/Province budget	1.3%
Staff			
Department staff	135	Number of agencies	4.5
Agency staff	402		
Total staff	537		

Sources: Provincial survey responses, annual reports and budget statements

Table 5: External partners

	Number of provinces with these links		Number of provinces with these links
National departments	8	Financial institutions	2
National agencies	5	International donors	1
DBSA	3	Professional bodies	1
Other depts. in the province	6	Local universities	6
Prov. arms length agencies	5	Training colleges	1
Municipalities	6	Research/consultancy bodies	5
Other provinces	2	Stats SA	1
Chambers of commerce	4	SA Reserve Bank	1
Other business associations	5	Organised labour	2
Property developers	1	Civil society organisations	1

Sources: Provincial survey responses and strategy documents
Note: BEE - black economic empowerment; EPWP – expanded public works programme; SDI – spatial development initiative

Table 6: Main achievements

	Total mentions		Total mentions
Create forum for policy discussion	4	One-stop shops for all entrepreneurs	2
Undertake analysis/research/ feasibility studies	3	Targeted business support for disadvantaged groups	3
Develop a strategy	3	Infrastructure for informal traders	1
Support municipal LED	6	Science park/bus. incubator	2
Create a new agency	2	Specialised business park	2
Prepare business plan(s)	3	Funding industrial & commercial property	2
Organise a BEE conference	1	University-business collab.	2
Organise a cultural festival	2	Supplier devt. programme	2
Exhibition for SMMEs	1	Programme to support co-ops	5
Attend international trade exhibition	2	Major road infrastructure	1
Supporting sectoral infrastr.	8	Create major visitor attraction	1
Launching IDZs/SDIs	4	Develop an internat. airport	1
Levering public investment	2	Develop major logistics hub	1
Levering private investment	4	Attracted inward investment	2
Create province growth fund	3	New businesses started	2
Advice/training for SMMEs	5	Actual job creation	3
Financial aid for SMMEs	6	Temporary jobs via EPWP	2
Information centre – SMMEs	1	Skills training	1

Sources: Provincial survey responses

Table 7: Main obstacles and other concerns

	Total mentions		Total mentions
Skills and capacity		**Coordination**	
Lack of municipal capacity to plan & implement projects	6	Poor coordination between spheres or departments	3
Shortages of professional skills in the department	4	Lack of common vision among key stakeholders	1
Shortage of professional skills in private consultancy	1	Low commitment of key stakeholders	1
Lack of capacity in agencies	1	Lack of influence over agencies	1
General low skills/shortage	3	Contradictory govt requirements	1
Resources		Poor support from national depts.	1
Lack of resources from govt. to deliver a large mandate	5	Lack of strategic perspective	1
Lack of resources for R&D	1	Legislative obstacles to BBBEE	1
Lack of venture capital	1	Delays caused by Environmental Impact Assessment requirements	2
Lack private sector match funding	1	Lack of govt support for vulnerable sectors	1
Lack of municipal resources	1	**Wider economic obstacles**	
Implementation		Recession, tight credit, strong rand, less private investment	1
Inadequate implementation of beneficiation programme	1	Narrow economic base	1
Poor implementation of PPPs	1	Cannot attract FDI to province	1
Slow implement. of BBBEE	1	Extreme poverty, weak tax base, serious social problems	2

Sources: Provincial survey responses
Note: BBBEE – broad-based black economic empowerment; PPP – Public-private partnerships

Table 8: Coordination problems

	Total mentions		Total mentions
Poor coordination between departments in the province	4	Fragmented legislation, regulations and policies	2
Poor links between province and its agencies	1	Restructure MinMec to focus on key policy priorities	1
Poor links between province and municipalities	4	Many disjointed initiatives	2
Lack of knowledge sharing between provinces	5	Need practical cooperation on joint projects	1
Need more communication between national & provinces	3	Poor coordination between SMME support agencies	2
Need more transparency in decision making	1	Poor coordination of skills programmes	1
Poor alignment and overlapping responsibilities between spheres	4	Poor coordination of infrastructure investment	2
Lack of joint planning between spheres	2	Need more monitoring and evaluation	1

Sources: Provincial survey responses
Note: MinMEC is a regular forum between national and provincial ministers of economic development.